

IRS INITIATIVES ON TAX ISSUES RELATED TO EMPLOYEE MEALS

WASHINGTON -- The Internal Revenue Service today took two actions to assist employers in the hospitality industry on certain tax issues related to providing meals for employees. This industry includes casinos, hotels, resorts, and similar establishments. First, in Announcement 98-77, the IRS released draft training materials on employee meals in the hospitality industry for future use by its auditors, inviting interested persons to offer comments. Second, in Announcement 98-78, the IRS outlined a settlement initiative allowing hospitality industry taxpayers to easily resolve these issues covering periods through December 31, 1998.

The employee meals issues involve employer deductions for expenses related to providing the meals on the employer's premises, as well as certain income and employment taxes on both employers and employees for the value of the meals. The employees involved include, but are not limited to, those who work in housekeeping services, gambling operations, recreational activities, maintenance, and food service.

Under the tax law, an employee may exclude the value of a meal from income, provided certain conditions are met. When the meals do qualify as tax-free to the employees, the law limits the deductions employers can take for the costs, unless certain other conditions are met.

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In its first action, Announcement 98-77, the IRS released draft training materials on the tax-treatment of employer-provided meals in the hospitality industry. The training materials are intended to provide guidance to both IRS auditors and taxpayers on the application of current law. Interested persons are invited to offer comments through September 30, 1998, that will be taken into consideration in preparing a final version of the materials, expected to be released by October 31, 1998.

“We expect that taxpayers in the hospitality industry will help us refine our training materials through their feedback,” said Thomas Smith, IRS Assistant Commissioner for Examination.

In the second action, Announcement 98-78, the IRS outlined a settlement initiative that allows hospitality industry taxpayers to resolve tax issues relating to employer-provided meals for periods through December 31, 1998. The issues resolved under the settlement initiative include employer deductions and withholding and employment taxes related to the provision of meals on the employer's premises, as well as income and employment taxes on employees for the value of the meals. Employers who accept the terms of the settlement initiative will resolve these issues for their employees.

“Although a new provision in the IRS Restructuring and Reform Act may resolve the income and employment tax issues related to employer-provided meals for some taxpayers, the settlement initiative will provide certainty and closure to other taxpayers whose issues are not resolved by the legislative change,” Smith said.

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The settlement initiative is available to taxpayers who indicate their interest in accepting the offer no later than 30 days after the draft training materials are finalized. For further details on the settlement offer, including conditions on accepting the offer and how to indicate an interest in accepting the offer, see Announcement 98-78.

Announcements 98-77 and 98-78, regarding the training materials and settlement initiative, respectively, will be in *Internal Revenue Bulletin 1998-34*, dated August 24, 1998, and are available through the "Tax Professional's Corner" of the IRS Web site at www.irs.ustreas.gov. In addition, interested persons may request a copy from the IRS Office of Employment Tax Administration and Compliance (OETAC), Room 2404, OP:EX:ST:ET, 1111 Constitution Avenue, N.W., Washington, D.C. 20224, or by calling (202) 622-3650 (not a toll-free call).

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